PSC NEWS
Missouri Public Service Commission

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PSC APPROVES AGREEMENT IN SOUTHERN UNION/ PANHANDLE EASTERN PIPELINE CASE

Jefferson City (March 28, 2003)---The Missouri Public Service Commission has approved an agreement which authorizes Southern Union Company d/b/a Missouri Gas Energy (MGE) to acquire the equity interests of the Panhandle Eastern Pipeline Company. The agreement contains a number of conditions designed to protect MGE customers from possible detrimental impact.

The agreement approved by the Commission was submitted by Southern Union Company, the Office of the Public Counsel and the Staff of the Missouri Public Service Commission. The agreement was reached as a result of extensive negotiations conducted by the parties. Several other parties to the case including various utility companies, large industrial customers and the Missouri Attorney General each filed notice indicating no objection to the agreement.

On January 13, 2003, Southern Union Company d/b/a Missouri Gas Energy (MGE) filed an application with the Missouri Public Service Commission seeking Commission authority to purchase the equity interest of Panhandle Eastern Pipeline Company, including various subsidiaries involved in natural gas transportation and storage services in the Midwest.

The agreement approved by the Commission contains a number of conditions including:

- Insulation of Southern Union's MGE operating division from Panhandle Eastern Pipeline Company business.
- Insulation of Southern Union's Missouri customers from possible adverse consequences associated with the transaction.
- Adoption of formal affiliate transaction rules.
- Transportation and storage cost requirements.
- Customer service standard requirements.

Insulation of Southern Union's Missouri Gas Energy customers: Under the terms of the agreement, Southern Union has stipulated that it will not encumber MGE's assets without Commission approval; Southern Union will not assume any Southern Union Panhandle Corporation debt

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without Commission approval; Southern Union will use its best efforts to protect MGE from any adverse consequences of Southern Union's other operations; Southern Union will ensure that the transaction will have no adverse effect on MGE's budget and funds to meet MGE's capital needs, including but not limited to service line and main replacement programs; and Southern Union will not seek either direct or indirect rate recovery or recognition of any acquisition premium. Under the agreement, MGE customers will not assume any of the financial risks of the merger.

Adoption of Formal Affiliate Transaction Rules: These rules are designed to protect regulated entities from affiliate abuse but are currently stayed pending appeal. The PSC Staff stated in its memorandum in support of the agreement that with the potential for affiliate abuse by Southern Union owning one of four interstate natural gas pipelines that supply natural gas to MGE, Staff believed that, at a minimum, it was important and necessary for Southern Union to comply with the Commission's affiliate and marketing transaction rules. Staff continued stating that Southern Union's compliance with these rules even prior to a legal requirement to comply will lessen the potential for affiliate abuse in the relationship among Southern Union Panhandle Corporation, Southern Union and MGE.

Transportation and Storage Cost Requirements: As part of the agreement, MGE is expected to obtain the best terms for gas transportation that it can achieve. Provisions contained in the agreement are designed to protect MGE's customers in the Purchased Gas Adjustment (PGA) process.

Customer Service Standard Requirements: The agreement calls for Southern Union to continue its commitment to customer service performance and customer service operating procedures as agreed to in a number of previous cases before the Commission. As a result of this case, MGE will implement additional measures including improvement of MGE's ability to meet service appointments and maintenance of the average time it takes the company to respond to Commission-forwarded complaints. MGE will also provide information related to any contacts or inquiries it receives about potential by-pass of its distribution system via direct connection to an interstate or intrastate pipeline system.

The Commission's order approving the agreement states: "After reviewing the stipulation and agreement of the parties, Staff's suggestions in support of that stipulation and agreement, and the evidence submitted by the parties, the Commission finds that the stipulation and agreement filed on March 25 should be approved. The Commission also finds that the transaction by which Southern Union will acquire the assets of Panhandle Eastern Pipeline Company, as conditioned by the stipulation and agreement, is not detrimental to the public interest."

Panhandle Eastern Pipeline Company, an interstate natural gas pipeline providing natural gas to various entities, is regulated by the Federal Energy Regulatory Commission (FERC). Panhandle's system

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in Missouri spans from Cass County in the west to Pike County in the northeast part of the State. Panhandle Eastern Pipeline Company is the third largest provider of natural gas in Missouri serving AmerenUE, Atmos Energy, Fidelity Natural Gas, Laclede Gas Company, MGE and Aquila. It also provides natural gas to a number of unregulated municipal systems in Missouri.

MGE, which provides natural gas service to approximately 500,000 customers in western Missouri, is a division of Southern Union Company.

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Case No. GM-2003-0238